

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

STATE OF IDAHO, Department of)	
Finance, Securities Bureau,)	Docket No. 2005-7-30
)	
Complainant,)	
)	AGREEMENT AND ORDER
vs.)	
)	
MORGAN STANLEY DW INC.,)	
)	
Respondent.)	

The Director of the Department of Finance has instituted an investigation into the conduct of Morgan Stanley DW Inc. Pursuant to said investigation, it appears to the Director that violations of the Idaho Securities Act, Idaho Code §§ 30-1401 *et seq.*, have occurred. The Director and the named Respondent have agreed to resolve this matter without a public hearing or court proceedings. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order be entered. Respondent consents to the entry of this Agreement and Order.

Respondent

1. Respondent Morgan Stanley DW Inc. (“MSDW”) is a broker-dealer with its principal place of business in Purchase, NY. MSDW has been registered as a broker-dealer in Idaho since at least 1983. MSDW employs agents (hereinafter “Financial Advisors”) who represent MSDW in effecting or attempting to effect purchases or sales of securities.

Department Allegations

2. The Department initiated an investigation into the securities activities of a former MSDW Financial Advisor based on a complaint from an elderly client (L.D.) in September 2002. The customer alleged the MSDW Financial Advisor recommended unsuitable investments, purchased those investments without her prior approval and exposed her to too much risk. Based on

further investigation, the Department alleges that the MSDW Financial Advisor recommended, purchased and sold individual stocks to at least three other MSDW clients (E.C., G.D. & K.D., and R.H. & P.H.) without regard to the personal financial needs and goals of the individual clients. The Department also alleges that, at least as to these four clients, the MSDW Financial Advisor also engaged in unauthorized trading, inappropriate use of margin and excessive trading.

Remedies

To resolve the issues raised by the above allegations, the Complainant and Respondent hereby agree as follows:

1. Respondent represents that it has made a good faith effort to provide all responsive documents and information requested or otherwise agreed to by Complainant.
2. Respondent neither admits nor denies the Department's allegations contained in this Order.
3. MSDW agrees to enforce its written policies and procedures as required by Rule 105 of the Rules Pursuant to the Uniform Securities Act (IDAPA 12.01.08.105) (formerly Rule 119(03) of the Rules Pursuant to the Idaho Securities Act, IDAPA 12.01.08.119.03).
4. MSDW acknowledges that when making an investment recommendation for the purchase, sale or exchange of a security to a MSDW customer, MSDW and its agents must have reasonable grounds for believing that the recommendation is suitable for such customer based on the facts, if any, disclosed by such customer as to the customer's other security holdings and financial situation and needs. Prior to the execution of a transaction recommended to a non-institutional customer, MSDW and its Financial Advisors shall make reasonable efforts to obtain information concerning: (1) the customer's financial status; (2) the customer's tax status; (3) the customer's investment objectives; and (4) such other information used or considered to be reasonable by such agent or Financial Advisor in making recommendations to the customer. MSDW and its Financial

Advisors are permitted to rely on the information provided by customers or prospective customers when making such recommendations. It is understood that customers are free to make the ultimate investment decision and may disregard any recommendation.

5. In addition to any other duties provided by Idaho law, MSDW agrees that, where MSDW or its MSDW Financial Advisor receives discretion to make investment decisions on behalf of a customer pursuant to a written trading authorization or where MSDW or its Financial Advisor exercises de facto control over the client's investment decisions, there is a rebuttable presumption that the Firm and/or its Financial Advisor has assumed certain fiduciary obligations, to the extent set forth in Idaho law. This provision shall not be construed to render MSDW and/or MSDW Financial Advisors as fiduciaries where 1) there is neither written authorization nor de facto control as noted above and customers accept recommendations made by MSDW or the MSDW Financial Advisor, 2) in compliance with NASD Rule 2510(d), clients have granted only limited or temporary discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite amount of a specific security shall be executed ("time and price discretion"), or 3) where clients have granted discretion, pursuant to a written trading authorization, to a professional money manager who may be affiliated or associated with MSDW. This paragraph shall not be construed to render MSDW and/or MSDW Financial Advisors as "fiduciaries" for purposes of any laws other than the common law and securities laws of the State of Idaho.

6. MSDW agrees to train its Idaho Financial Advisors on the AdvisorOne process (or successor process) and to make the AdvisorOne process (or successor process) available for use in Idaho branches as soon as practicable. MSDW shall, within 90 days of this Order, take steps to inform and educate its current and prospective clients on brokerage versus advisory relationships so clients can choose that which best fits their needs. MSDW shall also make available to its customers and its MSDW Financial Advisors asset allocation information in accordance with suitability needs

and investment objectives of clients. MSDW further agrees that, within 12 months of the date of this Order, branch managers in Idaho will be required to participate in the PEAK Leadership program, or a training program which is the same or substantially equivalent to the PEAK Leadership program.

7. MSDW agrees to provide to Complainant copies of its annual compliance examination reports for its Idaho branch offices for the years 2006 and 2007.

8. Regarding MSDW securities clients E.C., G.D. and K.D., and R.H. and P.H., MSDW shall issue payments as follows: E.C. the sum of twenty-five thousand, two hundred eighty-four dollars and no cents (\$25,284.00); G.D. & K.D. the sum of ninety thousand dollars and no cents (\$90,000.00); and R.H. & P.H. the sum of one hundred fifty thousand dollars and no cents (\$150,000.00). Said payments shall be provided to the Department not more than thirty (30) days from the date of this Order for distribution to the clients by the Department.

9. Respondent shall pay Complainant twenty-four thousand, seven hundred sixteen dollars (\$24,716.00) which includes, among other things, payment for the Department's legal and investigative costs in this matter. Respondent also wishes to contribute one hundred twenty-five thousand dollars and no cents (\$125,000.00) for the purpose of consumer education and protection in the State of Idaho. Because the Department of Finance's Securities Investor Education and Training Fund is fully funded and cannot accept further funds, Respondent designates the Consumer Protection Account in the Idaho Attorney General's Office to receive these funds and expend them for this purpose. Said payments shall be paid not later than thirty (30) days from the date of this Order.

10. Respondent agrees to abide by the Idaho Uniform Securities Act.

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11. This Agreement and Order is in lieu of civil litigation or other proceedings.

DONE AND DATED at Boise, Idaho, this 3 day of February, 2006.

MORGAN STANLEY DW INC.

By: 

Print name: JAMES J. MAHON

Title: MANAGING Director



MARILYN T. CHASTAIN

Bureau Chief, Securities Bureau

Department of Finance, State of Idaho

IT IS SO ORDERED this 7th day of February, 2006.



GAVIN M. GEE

Director, Idaho Department of Finance

